

Verbal Testimony of MEEMIC Insurance Company
Before the Joint House and Senate Tax Policy Committees
Michigan Legislature
May 23, 2005, Troy, Michigan

We sincerely appreciate this opportunity to share our concerns with the Governor's proposed Michigan Jobs & Investment Act.

My name is Christine Schmitt. I am Sr. Vice President, Chief Financial Officer and Secretary, of MEEMIC Insurance Company of Auburn Hills, Michigan. I was born and raised in Detroit, Michigan and reside in Bloomfield Hills, Michigan. Our Company is a member and a past-officer of the Insurance Institute of Michigan and the Auburn Hills Chamber of Commerce.

Before commenting on the proposal, I would like to take a moment to provide the committee some background on MEEMIC Insurance Company.

- MEEMIC Insurance Company is a property casualty insurance company domiciled in Michigan. We are rated A- Excellent by AM Best Company, our rating agency, for our financial strength and stability. This signifies the Company's excellent financial strength and reputation. The Company is on solid financial footing.
- MEEMIC is ranked among the top 10 private passenger automobile insurers in the state of Michigan and is also one of the 100 largest writers of personal lines automobile insurance in the United States.
- We provide auto, home, boat and umbrella insurance coverage to teachers, other educational employees in the community and their families and friends.
- The company was created in 1950 by seven teachers and opened its doors for business in downtown Detroit providing only auto insurance at that time. We have grown over the years in Michigan. Our number of employees has increased to 200, our agency force has expanded to approximately 100 of which the majority now own and operate outside offices throughout the state, and our headquarters has relocated six times (all of which have been in Michigan as we encompass a larger geographic region. On March 28, 2000 the State of Michigan presented MEEMIC with a special tribute to our 50th anniversary. We are very proud to have been recognized by the state for

“the important role that this enterprise has played in contributing to both the economic well-being of the State of Michigan and the lives of countless educators and their families over the years.”

- Today MEEMIC has approximately 175,000 policies in force covering 193,000 vehicles, 68,000 homes and another 5,000 boats and umbrella policies, with assets of approximately \$500 million.
- MEEMIC Insurance Company is a highly respected insurance provider with established roots in the educational community. Our commitment to the educational community is noted through the activities of the MEEMIC Foundation for the Future of Education. This is a non-profit organization established in 1992 to support individuals and organizations dedicated to the educational profession by offering financial assistance to educational employees and educational institutions in the form of mini-grants.
- MEEMIC understands the benefits of partnering with the educational community and as such we have established sponsorships with notable Michigan organizations such as:
 - Michigan High School Athletic Association – Good Sports are Winners program.
 - Michigan Association of Secondary School Principals – Sponsor of the Principal of the Year, Assistant Principal of the Year, and Advisor of the Year awards.
 - Michigan Association of Community and Adult Education – Sponsor of the School District of the Year award.
- And our partnerships don't stop there. We also offer a range of helpful services within the schools, such as:
 - Sponsoring administrators and teaching staff school breakfast meetings.
 - Supporting educational excellence through recognition programs for teachers and students of the month.

- Sponsoring school sporting events.
- Providing a speaker's bureau whereby teachers can access MEEMIC insurance professionals to come to their classrooms to share real-world experience and expertise about insurance and safety topics.
- We have also been part of the Auburn Hills, Michigan community as a resident, taxpayer, chamber of commerce member, and contributor to such organizations as the Boys and Girls club of Auburn Hills and the elementary and higher education schools for almost 15 years.
- Since 1991 MEEMIC's headquarters has resided in Auburn Hills of Oakland County, where we currently lease a building. That lease will expire beginning August 2006. Our company has been steadily growing over the years and our needs, particularly for a training facility cannot be appropriately accommodated in the current building. This has led us to the design of a new building that MEEMIC will own and solely occupy.
- We are currently building such a new home for the MEEMIC headquarters on a parcel of land in Auburn Hills that we have owned since 1999. This building represents an additional investment of \$17.3 million dollars in the community, and stimulates the Michigan economy by providing new work to many trades in the construction industry as well as supporting local businesses in the surrounding area.
- During our process to investigate where to build MEEMIC's new two-story headquarters, we were offered very attractive incentives to relocate to other nearby states, particularly Ohio. While we were unable to obtain any such incentives to stay within Michigan, MEEMIC has decided to continue supporting our state and be part of hopefully a promising and viable community right here in our backyard.
- MEEMIC continues to grow and prosper. In 2004, our payroll of 200 employees, which is entirely Michigan residents, was approximately \$12.0 million, an increase of 20% over five years ago. This money has stayed in Michigan, supporting the futures of hundreds of families, and providing tremendous benefits to the local economy.

- In 2004, MEEMIC paid claims on business written in Michigan of over \$100 million. This money goes straight into Michigan's economy to repair autos, reconstruct destroyed or damaged homes, and help individuals and businesses overcome catastrophes. The Company paid over \$27 million in commissions to Michigan agents, which funds their payrolls and operations. The Company also paid several million dollars to vendors, to assist in settling claims and to support insurance operations.

Our company and our employees in particular and the insurance industry in general take our corporate responsibility and community involvement seriously. We are very concerned with the Governor's tax, and we respectfully offer our concerns with this proposal.

- First, the tax proposal is fundamentally unfair. Rather than directly confronting necessary tax and fiscal reform, and working toward a more attractive economic environment for **all** companies, this proposal selectively favors some businesses and punishes others.
- Using our 2004 results as an example, this proposal would **increase our Michigan business taxes by \$2.7 million per year, or 270%**. Those increased expenses must factor into our hiring and rate plans, and will impact the ultimate cost of insurance for consumers and businesses.
- Further, the Governor's proposal would eliminate credits for pass-through taxes that we collect on behalf of the state. We currently collect premium to pay for state mandated programs such as the Michigan Basic Property Insurance Association, the Michigan Automobile Insurance Placement Facility and the Property and Casualty Guaranty Association. Under this plan, we would be taxed on premiums raised *for the state* to pay for these programs, without any credit or offset. This is plainly unfair.
- Second, the proposal provides a strong disincentive for small businesses and financial services companies to set up shop in Michigan. Let me take the insurance industry's retaliatory tax treatment as an example. Because Michigan insurers under this proposal will pay a higher tax in approximately 16 other states than the domestic carriers of those states, the Michigan domiciled insurance companies also doing business outside of Michigan will suffer real competitive disadvantages in those states. This will include Michigan-based insurance companies doing business in the neighboring

states of Ohio (1.4%), Indiana (1.3%), and Illinois (.5%). Should this proposal go into effect, insurers with regional operations would be better off domiciling in a state other than Michigan. MEEMIC is currently licensed to write insurance in Michigan, Ohio, Minnesota and Wisconsin. While our roots are in Michigan, we plan to expand regionally into surrounding states and this proposal could put MEEMIC at a disadvantage in competing with other companies not domiciled in Michigan.

- Many nearby states have implemented laws aimed at recruiting financial services business and job growth. I mentioned earlier in our discussion of MEEMIC's new building headquarters, an example other state's recruiting efforts. Our administration appears to take the opposite approach.

So what does this mean?

Does this mean we will pack our bags and leave Michigan? No. MEEMIC has already committed to stay and build here in Michigan.

Does this mean that Michigan will now become a place where it is more expensive to conduct business? Yes.

We've seen estimates that while the insurance industry accounts for roughly 2% of the economic activity of this state, we already pay approximately 11% of the business tax burden in Michigan. If this proposal goes into effect, that percentage would more than double, and that same 2% of economic activity would be responsible for approximately 23% of SBT collections.

Who will pay for all this? In the long run, the consumer – the citizens of Michigan. To the insurance companies, a premium tax is a cost of doing business, just as wages and operating expenses are. Since we operate in competitive markets, the costs of doing business are eventually paid by the consumer.

The Governor's plan to add a new tax on insurance premiums passes the burden onto policyholders in the form of higher premiums. This plan comes at a time when we are being brought into an ever-increasing regulatory environment and under considerable unfounded criticism that insurance rates are too high. A plan to increase the tax burden is not a viable or effective solution.

The additional money to pay these taxes has to come from somewhere, and always with increased taxes, it will come from the citizens of Michigan.

Thank you very much for this opportunity to present our views.